

## Message Text

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ACTION ARA-20

INFO OCT-01 ISO-00 AGR-20 CEA-02 CIAE-00 COME-00 DODE-00

EB-11 FRB-02 H-03 INR-10 INT-08 L-03 LAB-06 NSAE-00

NSC-10 PA-04 RSC-01 AID-20 CIEP-02 SS-20 STR-08

TAR-02 TRSE-00 USIA-15 PRS-01 SPC-03 OMB-01 DRC-01

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R 282100Z DEC 73

FM AMEMBASSY BUENOS AIRES

TO SECSTATE WASHDC 4811

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E. O. 11652: N/A

TAGS: EGEN, AR

SUBJ: PRICE AND WAGE POLICY: GOVT TO ABSORB HIGHER IMPORT COSTS

1. SUMMARY: AFTER A NUMBER OF FALSE STARTS, GOA HAS NOW ANNOUNCED THAT IT WILL ABSORB HIGHER COSTS OF IMPORTED RAW MATERIALS RATHER THAN ALLOW THESE INCREASES TO BE PASSED ON IN FORM OF HIGHER PRICES OF END PRODUCTS, THIS TO BE DONE THROUGH YET UNDEFINED ADJUSTMENTS IN EXCHANGE RATES, IMPORT RESTRICTIONS, AND TAXES FOR CERTAIN IMPORTS. BY THUS AVERTING OFFICIALLY SANCTIONED PRICE INCREASES, GOA WILL BE IN BETTER POSITION TO HOLD LINE AGAINST DEMANDS FOR WAGE INCREASES. AT SAME TIME, MAJOR INDUSTRIAL SECTORS NOW CAUGHT IN SERIOUS SQUEEZE BETWEEN RISING RAW MATERIAL PRICES AND FIXED PRICES FOR END PRODUCTS IN INTERNAL MARKET SHOULD RECEIVE SOME RELIEF. END SUMMARY.

2. RISING WORLD PRICES OF NECESSARY IMPORTS, PRIMARILY RAW MATERIALS, WERE IDENTIFIED EARLY BY ADMINISTRATORS OF GOA PRICE POLICY AS LIKELY BASIS FOR EVENTUAL INCREASES IN PRICES OF END PRODUCTS. MECHANISMS ESTABLISHED IN SEPT TO REVIEW

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INDIVIDUAL REQUESTS FOR SUCH INCREASES. SOME INCREASES REPORTED

TO BE IMMINENT IN NOV, BUT THEN POSTPONED WHN ORGANIZED LABOR INSISTED THAT ANY SUCH CHANGES IN PRICES BE ACCOMPANIED BY HIGHER WAGES. IN SUBSEQUENT DISCUSSIONS, UNIONS STOOD FIRM ON POSITION WHILE COMMERCE SECRETARY, WHO ADMINISTERS PRICE POLICIES, CLAIMED THAT SUCH INCREASES WOULD NOT AFFECT COST OF LIVING INDEX. IN MID DECEMBER, COMMERCE SECRETARY ANNOUNCED THAT THOROUGH INVESTIGATION HAD ESTABLISHED THAT SOME PRICE INCREASES WERE JUSTIFIED AND AUTHORIZATIONS FOR INCREASES WERE REPORTEDLY SENT TO A NUMBER OF COMPANIES. ON DEC 20, HOWEVER, PRESIDENT PERON WHO HAD EARLIER TOLD UNIONS THERE WOULD BE NO WAGE INCREASES (BA 9089) STATED IN PRESS CONFERENCE THAT COMPANIES THEMSELVES WOULD HAVE TO ABSORB COST OF FOREIGN INFLATION AS WORKERS WERE ABSORBING IMPACT OF FROZEN WAGES. COMMERCE SECY APPARENTLY TAKEN BY SURPRISE BACKTRACKED SENDING TELEGRAMS TO AFFECTED FIRMS REVOKING AUTHORIZATIONS FOR PRICE INCREASES.

3. GOA NOW HAS ANNOUNCED DECISIONS TO TAKE UPON ITSELF TASK OF ABSORBING HIGHER COSTS OF NECESSARY IMPORTS THOUGH ADJUSTMENTS IN EXCHANGE RATES, CUSTOMS DUTIES, AND POSSIBLY TAXES. NO DETAILS AVAILABLE YET AS TO HOW SUCH ADJUSTMENTS WILL BE ADMINISTERED OR WHAT PRODUCTS TO BE COVERED. CENTRAL BANK PRESIDENT INDICATED THAT IMPORTS OF ABOUT 300 PRODUCTS WILL BENEFIT FROM MORE FAVORABLE EXCHANGE RATE, WHICH WILL REPRESENT "PARTIAL REVALUATION OF PESO." LIMITED NUMBER OF PRODUCTS COULD ALSO BENEFIT FROM REDUCTION IN IMPORT DUTIES.

4. COMMENT: PROFIT MARGINS OF MOST IF NOT ALL MAJOR SECTORS OF ARGENTINE INDUSTRY DEPENDENT ON IMPORTED INPUTS ARE CAUGHT IN SERIOUS SQUEEZE BETWEEN RISING WORLD PRICES OF THESE MATERIALS, PRIMARILY METALS, CHEMICALS, PETROCHEMICALS, WOOD PULP AND PAPER, AND DOMESTIC PRICES FIXED FOR INTERMEDIATE AND END PRODUCTS UNDER GOA PRICE FREEZE SIX MONTHS AGO. MANY COMPANIES NOW CLAIM TO BE OPERATING AT A LOSS, WITH AUTOMOBILE INDUSTRY PARTICULARLY HARD HIT. WHILE MOST COMPANIES INITIALLY CONTINUED NORMAL OPERATIONS IN HOPE OF EVENTUAL RELIEF, THEIR ABILITY TO MAINTAIN LEVEL AND QUALITY OF PRODUCTION INCREASINGLY THREATENED BY CONTINUED RISING COSTS, DIFFICULTIES IN OBTAINING NECESSARY RAW MATERIALS, AND DIFFICULTY IN OBTAINING RELIEF FROM GOVERNMENT.

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5. ANNOUNCEMENT OF NEW MEASURES SO SOON AFTER PERON'S STATEMENT OF DEC 20 SEEMS TO INDICATE THAT GOA IS BECOMING CONCERNED ABOUT EFFECT OF PRICE SQUEEZE ON FUTURE PRODUCTION AND EMPLOYMENT. PROBLEM REMAINS, HOWEVER OF TRANSLATING THIS CONCERN INTO TIMELY AND EFFECTIVE ACTION. EXCHANGE RATE ADJUSTMENTS AND OTHER ANNOUNCED MEASURES OFFER GREATER DEGREE OF FLEXIBILITY BUT LIKELY TO BE MORE DIFFICULT TO ADMINISTER THAN PRICE INCREASES ORIGINALLY CONSIDERED. ALSO BY PROVIDING THAT INCREASED

COSTS BE ABSORBED BY BUDGET AND THUS NOT DIRECTLY REFLECTED  
IN RETAIL PRICES AND COST OF LIVING GOVERNMENT WILL BE BETTER  
ABLT TO MAINTAIN THAT INFLATION HAS BEEN HALTED AND THERE-  
FORE NO WAGE INCREASES ARE JUSTIFIED. LINK BETWEEN THESE TWO  
ASPECTS OF GOA ECONOMIC POLICY REITERATED YESTERDAY BY PERON  
WITH PERSONAL PROMISE TO UNIONS THAT ANY INCREASE IN PRICES  
WHICH ARE NOW FROZEN WILL BE ACCOMPANIED BY IMMEDIATE INCREASE  
IN WAGES.

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## Message Attributes

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**Capture Date:** 01 JAN 1994  
**Channel Indicators:** n/a  
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**Concepts:** RAW MATERIALS, COST OF LIVING, WAGES, INFLATION, IMPORT CONTROLS, IMPORT PRICES, PRICE FIXING  
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**Copy:** SINGLE  
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**Disposition Date:** 28 MAY 2004  
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